

ORIGINAL
COMMISSIONERS
TOM FORESE – Chairman
BOB BURNS
ANDY TOBIN
BOYD DUNN
JUSTIN OLSON

Open Meeting Item



ARIZONA CORPORATION COMMISSION

DATE: NOVEMBER 27, 2018

DOCKET NOS.: E-01345A-16-0036 and E-01345A-16-0123

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA PUBLIC SERVICE COMPANY (SCR ADJUSTOR RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

DECEMBER 7, 2018

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 17 and 18, 2018

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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Arizona Corporation Commission

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JANE RODDA
CHIEF ADMINISTRATIVE LAW JUDGE

On this 27th day of November, 2018, the following document was filed with Docket Control as a Recommended Opinion & Order from the Hearing Division, and copies of the document were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the filed document to the following who have consented to email service.

Thomas H. Campbell
Stanley B. Lutz
LEWIS ROCA ROTHGERBER CHRISTIE
201 East Washington Street, Suite 1200
Phoenix, AZ 85004
Attorneys for Arizona Energy Policy Group
Tcampbell@lrrc.com
SBlutz@lrrc.com
Consented to Service by Email

Bob Stump, Executive Director
ARIZONA ENERGY POLICY GROUP
2198 East Camelback Road, Suite 305
Phoenix, AZ 85016
ArizonaEnergyPolicyGroup@gmail.com
Consented to Service by Email

Thomas A. Loquvam
Thomas L. Mumaw
Melissa M. Krueger
PINNACLE WEST CAPITAL CORPORATION
400 North 5th Street, MS 8695
Phoenix, AZ 85004
Attorneys for Arizona Public Service Company
Thomas.Loquvam@pinnaclewest.com
Thomas.Mumaw@pinnaclewest.com
Melissa.Kreuger@pinnaclewest.com
Amanda.Ho@pinnaclewest.com
Debra.Orr@pinnaclewest.com
pref@swlaw.com
Consented to Service by Email

Matthew E. Price
JENNER & BLOCK
1099 New York Avenue, NW Suite 900
Washington, DC 20001-4412
Attorneys for Arizona Public Service Company and
Pinnacle West Capital Corporation

Mary R. O'Grady
OSBORN MALEDON, P.A.
2929 North Central Avenue, 21st Floor
Phoenix, AZ 85012
Attorneys for Arizona Public Service Company and
Pinnacle West Capital Corporation

Patricia Ferré
P.O. Box 433
Payson, AZ 85547
pFerre@mac.com
Consented to Service by Email

Richard Gayer
526 W. Wilshire Drive
Phoenix, AZ 85003
rgayer@cox.net
Consented to Service by Email

Warren Woodward
55 Ross Circle
Sedona, AZ 86336
w6345789@yahoo.com
Consented to Service by Email

Anthony L. Wanger
Alan L. Kierman
Brittany L. DeLorenzo
IO DATA CENTERS, LLC
615 N. 48th St.
Phoenix, AZ 85008

Patrick J. Black
FENNEMORE CRAIG, PC
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016
Attorneys for Freeport Minerals Corporation and
Arizonans for Electric Choice and Competition
pblack@fclaw.com
khiggins@energystrat.com
Consented to Service by Email

Daniel Pozefsky, Chief Counsel
RESIDENTIAL UTILITY CONSUMER OFFICE
1110 W. Washington, Suite 220
Phoenix, AZ 85007
dpozefsky@azruco.gov
procedural@azruco.gov
jfuentes@azruco.gov
cfraulob@azruco.gov
Consent to Service by Email

Greg Eisert, Director
Steven Puck, Director
Government Affairs
SUN CITY HOMEOWNERS ASSOCIATION
10401 W. Coggins Drive
Sun City, AZ 85351
gregeisert@gmail.com
Steven.puck@cox.net
Consented to Service by Email

Timothy M. Hogan
ARIZONA CENTER FOR LAW IN THE PUBLIC
INTEREST
514 W. Roosevelt St.
Phoenix, AZ 85003
Attorneys for Western Resource Advocates,
Southwest Energy Efficiency Project, and Vote Solar
thogan@aic@aclpi.org
ken.wilson@westernresources.org
schlegelj@aol.com
ezuckerman@swenergy.org
bbaatz@aceee.org
briana@votesolar.org
cosuala@earthjustice.org
dbender@earthjustice.org
cfitzgerrell@earthjustice.org
Consented to Service by Email

Meghan H. Grabel
OSBORN MALEDON, P.A.
2929 N. Central Ave., Suite 2100
Phoenix, Arizona 85012
Attorneys for Arizona Investment Council
Mgrabel@omlaw.com
gyaquinto@arizonaic.org
Consented to Service by Email

Craig A. Marks
CRAIG A. MARKS, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, AZ 85028
Attorney for Arizona Utility Ratepayer Alliance
Craig.Marks@azbar.org
Pat.Quinn47474@gmail.com
Consented to Service by Email

Al Gervenack, Director
Rob Robbins, President
Robert Miller, Director
PROPERTY OWNERS & RESIDENTS
ASSOCIATION
13815 Camino del Sol
Sun City West, AZ 85372
Al.gervenack@porascw.org
Rob.robbs@porascw.org
Bob.miller@porascw.org
Consented to Service by Email

Tom Harris, Chairman
ARIZONA SOLAR ENERGY INDUSTRIES
ASSOCIATION
2122 W. Lone Cactus Dr., Suite 2
Phoenix, AZ 85027
Tom.Harris@AriSEIA.org
Consented to Service by Email

Cynthia Zwick, Executive Director
Kevin Hengehold, Energy Program Director
ARIZONA COMMUNITY ACTION
ASSOCIATION
340 E. Palm Lane, Suite 315
Phoenix, AZ 85004
czwick@azcaa.org
khengehold@azcaa.org
Consented to Service by Email

Jay I. Moyes
MOYES SELLERS & HENDRICKS LTD
1850 N. Central Avenue, Suite 1100
Phoenix, AZ 85012
Attorneys for Electrical District Number Eight and
McMullen Valley Water Conservation & Drainage
District
JasonMoyes@law-msh.com
jimoyes@law-msh.com
jim@harcuvar.com
Consented to Service by Email

Kurt J. Boehm
Jody Kyler Cohn
BOEHM KURTZ & LOWRY
36 E. Seventh Street, Suite 1510
Cincinnati, OH 45202
Attorneys for The Kroger Co.

John William Moore, Jr.
MOORE BENHAM & BEAVER, PLC
7321 North 16th Street
Phoenix, AZ 85020
Attorney for The Kroger Co.

Giancarlo G. Estrada
KAMPER ESTRADA, LLP
3030 N. 3rd Street, Suite 770
Phoenix, AZ 85012
Attorneys for Solar Energy Industries Association,
San Juan Citizens Alliance, Tó Nizhóní Aní, and
Diné CARE
gestrada@lawphx.com
kfox@kfwlaw.com
Consented to Service by Email

Lawrence V. Robertson, Jr.
210 Continental Road, Suite 216A
Green Valley, AZ 85622
Attorney for Calpine Energy Solutions LLC,
Constellation New Energy, Inc., and Direct Energy,
Inc.
tubaclawyer@aol.com
Consented to Service by Email

L. Robertson
210 Continental Road, Suite 216A
Green Valley, AZ 85622
Attorney for Calpine Energy Solutions LLC,
Constellation New Energy, Inc., and Direct Energy,
Inc.

Michael W. Patten
Jason D. Gellman
SNELL & WILMER LLP
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004
Attorneys for Tucson Electric Power Company
mpatten@swlaw.com
jhoward@swlaw.com
docket@swlaw.com
Bcarroll@tep.com
Consented to Service by Email

Charles Wesselhoft, Deputy County Attorney
PIMA COUNTY ATTORNEY'S OFFICE
32 North Stone Avenue, Suite 2100
Tucson, AZ 85701
Charles.Wesselhoft@pcao.pima.gov
Consented to Service by Email

Court S. Rich
ROSE LAW GROUP PC
7144 E. Stetson Drive, Suite 300
Scottsdale, AZ 85251
Attorneys for Energy Freedom Coalition of America
crich@roselawgroup.com
hslaughter@roselawgroup.com
clcedford@mcdonaldcarano.com
Consented to Service by Email

Greg Patterson
MUNGER CHADWICK
916 West Adams, Suite 3
Phoenix, AZ 85007
Attorneys for Arizona Competitive Power Alliance

Scott S. Wakefield
HIENTON CURRY, PLLC
5045 N. 12th Street, Suite 110
Phoenix, AZ 85014
Attorneys for Wal-Mart Stores, Inc.
swakefield@hclawgroup.com
mlougee@hclawgroup.com
Stephen.chriss@wal-mart.com
Greg.tillman@walmart.com
chris.hendrix@wal-mart.com
Consented to Service by Email

AND

Lisa Vickers Perry
ORAM & HOUGHTON, PLLC
402A W. Palm Valley Blvd., #370
Round Rock, TX 78664-4200
Attorney for Walmart, Inc.
lperry@horam-houghton.com
Consented to Service by Email

Nicholas J. Enoch
Kaitlyn A. Redfield-Ortiz
LUBIN & ENOCH, PC
349 N. 4th Avenue
Phoenix, AZ 85003
Attorneys for Local Unions 387 and
769 of IBEW, AFL-CIO

Ann-Marie Anderson
WRIGHT WELKER & PAUOLE, PLC
10429 South 51st Street, Suite 285
Phoenix, AZ 85044
Attorneys for AARP
aanderson@wwpfirm.com
sjennings@aarp.org
aallen@wwpfirm.com
john@johncoffman.net
Consented to Service by Email

Albert H. Acken
Sheryl A. Sweeney
Samuel L. Lofland
RILEY CARLOCK & APPLEWHITE
One N. Central Avenue, Suite 1200
Phoenix, AZ 85004
Attorneys for Electrical District Number Six, Pinal
County, Arizona;
Electrical District Number Seven of the County of
Maricopa, State of Arizona;
Aguila Irrigation District; Tonopah Irrigation District;
Harquahala Valley Power District;
and Maricopa County Municipal Water Conservation
District Number One
aacken@rcalaw.com
ssweeney@rcalaw.com
slofland@rcalaw.com
jjw@krsaline.com
Consented to Service by Email

Robert L. Pickels, Jr.
Sedona City Attorney's Office
102 Roadrunner Drive
Sedona, AZ 86336
Attorneys for City of Sedona
rpickels@sedonaaz.gov
Consented to Service by Email

Garry D. Hays
THE LAW OFFICES OF GARRY D. HAYS, PC
2198 E. Camelback Rd., Suite 305
Phoenix, AZ 85016
Attorney for the Arizona Solar Deployment Alliance
ghays@lawgdh.com
Consented to Service by Email

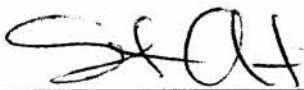
Thomas E. Stewart, General Manager
GRANITE CREEK POWER & GAS LLC
GRANITE CREEK FARMS LLC
5316 E. Voltaire Ave.
Scottsdale, AZ 85254-3643
tom@gcfaz.com
Consented to Service by Email

Denis M. Fitzgibbons
FITZGIBBONS LAW OFFICES, PLC
115 E. Cottonwood Lane, Suite 150
PO Box 11208
Casa Grande, AZ 85130
Attorney for City of Coolidge
denis@fitzgibbonslaw.com
Consented to Service by Email

Timothy J. Sabo
SNELL & WILMER, LLP
One Arizona Center
400 E. Van Buren St.
Phoenix, AZ 85004
Attorneys for REP America d/b/a ConservAmerica
tsabo@swlaw.com
jhoward@swlaw.com
docket@swlaw.com
pwalker@conservamerica.org
Consented to Service by Email

Robin Mitchell, Director
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007
LegalDiv@azcc.gov
utildivservicebyemail@azcc.gov
Consented to Service by Email

By:



Staci Antrim
Assistant to Belinda A. Martin

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 TOM FORESE – Chairman
4 BOB BURNS
5 ANDY TOBIN
6 BOYD DUNN
7 JUSTIN OLSON

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA PUBLIC SERVICE COMPANY FOR A
10 HEARING TO DETERMINE THE FAIR VALUE OF
11 THE UTILITY PROPERTY OF THE COMPANY
12 FOR RATEMAKING PURPOSES, TO FIX A JUST
13 AND REASONABLE RATE OF RETURN
14 THEREON, TO APPROVE RATE SCHEDULES
15 DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. E-01345A-16-0036

16 IN THE MATTER OF FUEL AND PURCHASED
17 POWER PROCUREMENT AUDITS FOR ARIZONA
18 PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-16-0123

DECISION NO. _____

OPINION AND ORDER
(SCR Adjustor)

19 DATES OF HEARING:

August 30, 2018 (Pre-Hearing Conference); September 5,
6, and 7, 2018

20 PLACE OF HEARING:

Phoenix, Arizona

21 ADMINISTRATIVE LAW JUDGE:

Belinda A. Martin

22 APPEARANCES:

Ms. Melissa Krueger, Mr. Thomas Mumaw, Ms. Theresa
Dwyer, PINNACLE WEST CAPITAL
CORPORATION, on behalf of Arizona Public Service
Company;

Ms. Lauren Ferrigni and Mr. Patrick J. Black,
FENNEMORE CRAIG, PC, on behalf of Freeport
Minerals Corporation and Arizonans for Electric Choice
and Competition;

Mr. Timothy Hogan, ARIZONA CENTER FOR LAW
IN THE PUBLIC INTEREST, on behalf of Arizona
Community Action Association and Western Resource
Advocates, and Mr. Adam L. Stafford, In-House Counsel
for Western Resource Advocates;

Mr. Jason Moyes, MOYES SELLERS & HENDRICKS,
LTD, on behalf of Electrical District Number Eight and
McMullen Valley Water Conservation & Drainage
District;

Mr. Giancarlo G. Estrada, KAMPER ESTRADA, LLP,
on behalf of San Juan Citizens Alliance, Tó Nizhóni Áni,
and Diné CARE, the Citizen Groups;

Mr. Thomas H. Campbell and Mr. Stanley Lutz, LEWIS
ROCA ROTHGERBER CHRISTIE, L.L.P., on behalf of
Arizona Energy Policy Group;

Ms. Lisa Perry, ORAM-HOUGHTON, P.L.L.C., on
behalf of Wal-Mart, Inc.;

Mr. Daniel W. Pozefsky, on behalf of the Residential
Utility Consumer Office;

Ms. Maureen A. Scott, Deputy Chief of Litigation and
Appeals, Mr. Wesley C. Van Cleve, Assistant Chief
Counsel, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission.

BY THE COMMISSION:

In Decision No. 76295 (August 18, 2017), the Arizona Corporation Commission (“Commission”) approved a rate increase pursuant to Settlement Agreement for Arizona Public Service Company (“APS” or “Company”). The Commission also authorized APS “to defer for possible later recovery through rates, all non-fuel costs...of owning, operating, and maintaining the Selective Catalytic Reduction environmental controls at the Four Corners Power Plant.”¹

On April 27, 2018, APS filed with the Commission an application for approval of a Selective Catalytic Reduction (“SCR”) Adjustment as permitted in Decision No. 76295. In its application, the Company requested that the Commission permit recovery of a \$67.5 million annual revenue requirement for its share of the costs related to the installation of the SCRs on the Four Corners Power Plant (“Four Corners”) Units 4 and 5, through an adjustor to customers’ bills.

At the time that APS filed the SCR application, parties to these dockets were APS, the Commission’s Utilities Division (“Staff”), Richard Gayer; Patricia Ferré; Warren Woodward; IO Data Centers, LLC (“IO”); Freeport Minerals Corporation (“Freeport”); Arizonans for Electric Choice and Competition (“AECC”); Sun City Home Owners Association (“Sun City HOA”); Western Resource Advocates (“WRA”); Arizona Investment Council (“AIC”); Arizona Utility Ratepayer Alliance

¹ Decision No. 76295, page 108.

1 (“AURA”); Property Owners and Residents Association of Sun City West (“PORA”); Arizona Solar
 2 Energy Industries Association (“AriSEIA”); Arizona School Boards Association (“ASBA”) and
 3 Arizona Association of School Business Officials (“AASBO”) (collectively “ASBA/AASBO”);
 4 Cynthia Zwick; Arizona Community Action Association (“ACAA”); Southwest Energy Efficiency
 5 Project (“SWEEP”); the Residential Utility Consumer Office (“RUCO”); Vote Solar; Electrical District
 6 Number Eight and McMullen Valley Water Conservation & Drainage District (collectively,
 7 “ED8/McMullen”); The Kroger Co. (“Kroger”); Tucson Electric Power Company (“TEP”); Pima
 8 County; Solar Energy Industries Association (“SEIA”); the Energy Freedom Coalition of America
 9 (“EFCA”); Wal-Mart Stores, Inc. and Sam’s West, Inc. (collectively, “Walmart”); Local Unions 387
 10 and 769 of the International Brotherhood of Electrical Workers, AFL-CIO (collectively, “the IBEW
 11 Locals”); Calpine Energy Solutions LLC (“Calpine Solutions”)(formerly Noble Energy Solutions,
 12 LLC); the Arizona Competitive Power Alliance (“the Alliance”); Electrical District Number Six, Pinal
 13 County, Arizona (“ED 6”), Electrical District Number Seven of the County of Maricopa, State of
 14 Arizona (“ED7”), Aguila Irrigation District (“AID”), Tonopah Irrigation District (“TID”), Harquahala
 15 Valley Power District (“HVPD”), and Maricopa County Municipal Water Conservation District
 16 Number One (“MWD”) (collectively, “Districts”); the Federal Executive Agencies (“FEA”);
 17 Constellation New Energy, Inc. (“CNE”); Direct Energy, Inc. (“Direct Energy”); AARP; the City of
 18 Sedona (“Sedona”); Arizona Solar Deployment Alliance (“ASDA”); the City of Coolidge
 19 (“Coolidge”); REP America d/b/a ConservAmerica (“ConservAmerica”); and Granite Creek Power &
 20 Gas and Granite Creek Farms LLC (collectively, “Granite Creek”).

21 Of the intervenors listed above, only APS, WRA, ACAA, Freeport, AECC, Walmart, ED8,
 22 McMullen, and RUCO participated in this phase of the rate case. In addition, San Juan Citizens
 23 Alliance, Tó Nizhóni Áni, and Diné CARE, (collectively, “Citizen Groups”)² and Arizona Energy
 24 Policy Group (“AEPG”)³ were granted intervention in this phase of APS’ rate case.

25 ² San Juan Citizens Alliance is an advocacy group that advocates on various issues regarding the quality and protection of
 26 regional air, land, and water resources. Tó Nizhóni Áni is a Navajo Non-Governmental Organization whose mission is to
 27 preserve and protect the environment, land, water, sky, and people, and advocate for the wise and responsible use of natural
 28 resources in the Black Mesa region. Diné CARE is an all-Navajo environmental organization within the Navajo homeland
 that promotes alternative uses of natural resources and seeks to protect the Diné way of life.

³ AEPG is a non-profit corporation formed to provide perspective to state and national regulators regarding Arizona energy
 challenges and opportunities.

1 The hearing in this phase of the proceedings began on September 5, 2018, and continued on
 2 September 6 and 7, 2018. Several members of the Navajo Nation, a member of the San Juan Citizens
 3 Alliance, a former financial controller for Farmington, New Mexico, and the director of the Rio Grande
 4 Chapter of the Sierra Club provided public comments telephonically on the first day of hearing,
 5 encouraging the Commission to begin planning now for the time when Four Corners will be shut down.
 6 On Friday, September 7, 2018, public comment was provided by Dan Herder and Edith Simonson,
 7 both members of the Navajo Nation, who commented on the impact of Four Corners upon those who
 8 live near the plant.⁴ APS presented the testimony of Barbara Lockwood, James Gifford, Elizabeth
 9 Blankenship, and Leland Snook; Staff presented the testimony of Donald Grace and Ralph Smith;
 10 Walmart presented the testimony of Gregory Tillman; ACAA presented the testimony of Cynthia
 11 Zwick; Citizen Groups presented the testimony of Nicole Horseherder and Michael Eisenfeld; Freeport
 12 and AECC presented the testimony of Kevin Higgins; and WRA presented the testimony of Douglas
 13 Howe. The parties stipulated to the pre-filed testimony of RUCO witness John Cassidy. ED8,
 14 McMullen and AEPG did not present any witnesses.

15 DISCUSSION

16 APS, a subsidiary of Pinnacle West Capital Corporation, is the largest electric provider in
 17 Arizona, and serves more than 1.2 million customers throughout 11 of 15 Arizona counties. APS has
 18 more than 6,300 employees. APS owns or co-owns and operates the Palo Verde Nuclear Generating
 19 Station, six natural gas plants, two coal-fired plants, renewable energy power generating facilities, and
 20 more than 35,000 miles of transmission and distribution lines.

21 Four Corners History and Decisions

22 Four Corners is a coal-fired power plant located near Fruitland, New Mexico, on property
 23 within the Navajo Tribal Lands that is leased from the Navajo Nation. The current land lease extends
 24 through 2041. The coal for the plant is purchased from the Navajo Nation's coal mines under the terms
 25 of an agreement that ends in 2031. Four Corners originally consisted of five units. In 2010, APS owned
 26 Units 1 – 3. Units 4 – 5, which were completed in 1969 – 1970, were co-owned by Southern California
 27

28 ⁴ Mr. Herder and Ms. Simonson spoke in their native language, which was interpreted by Nicole Horseherder.

1 Edison ("SCE"), APS, Public Service Company of New Mexico ("PNM"), Salt River Project ("SRP"),
2 El Paso Electric Company ("EPE"), and Tucson Electric Power ("TEP").

3 On April 24, 2012, the Commission issued Decision No. 73130 authorizing APS, if it so chose,
4 to acquire SCE's interest in Four Corners Units 4 and 5 and retire Units 1 – 3. Decision No. 73130 also
5 authorized APS to defer for possible later recovery through rates all non-fuel costs of owning,
6 operating, and maintaining the acquired interest in Four Corners Units 4 and 5 and associated facilities.
7 In addition, Decision No. 73130 ordered the accumulated deferred balance associated with all amounts
8 deferred pursuant to Decision No. 73130 to be included in the cost of service for ratemaking purposes
9 in either the pending rate case or the next general rate case for APS; ordered APS to prepare and retain
10 accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred costs and
11 cost benefits authorized in the Decision; ordered APS to prepare a separate detailed report of all costs
12 deferred under the deferral authorization; and ordered APS to include that report as an integral
13 component of each of its general rate applications in which it requests recovery of those deferred costs.
14 Decision No. 73130 also ordered that if APS acquired SCE's interest in Units 4 and 5, that APS must
15 "undertake a comprehensive planning process to evaluate the retirement of additional coal-fired power
16 plants (in addition to Four Corners Units 1, 2 and 3) within the next ten years and include these coal-
17 fired plant retirement options in its resource plans, beginning no later than its 2014 resource plan
18 filing."⁵

19 On May 24, 2012, the Commission issued Decision No. 73183, approving a Settlement
20 Agreement in a rate case filing. Decision No. 73183 held open the record in the docket to allow APS
21 to file by December 31, 2013, an application for approval to adjust its rates to reflect its acquisition of
22 SCE's ownership interest in Four Corners Units 4 and 5; the retirement of Four Corners Units 1 – 3;
23 and any cost deferral authorized in that same docket.

24 In December 2013, APS finalized its acquisition of SCE's interest in Units 4 and 5 and, shortly
25 afterward, shut down Units 1 – 3, as required by the Commission in Decision No. 73130. At present,
26 APS owns 63 percent, PNM owns 13 percent, SRP owns 10 percent, TEP owns seven percent, and the
27

28 ⁵ Decision No. 73130, page 44.

1 Navajo Transitional Energy Company ("NTEC") owns 7 percent of Units 4 and 5.⁶

2 On December 30, 2013, APS filed its Application to Approve Four Corners Rate Rider. In its
3 application, the Company calculated a required revenue increase to reflect the increased rate base for
4 the Four Corners' acquisition using a revised weighted average cost of capital ("WACC"), rather than
5 the fair value rate of return ("FVROR") authorized in Decision No. 73183. Staff recommended that the
6 Commission use the authorized FVROR to calculate the required revenue increase.

7 Decision No. 74876 (December 23, 2014) adopted Staff's recommendation and applied the
8 FVROR to determine the appropriate revenue requirement. The Commission authorized the
9 implementation of a Four Corners Rate Rider that would recover revenue related to the acquisition of
10 Four Corners Units 4 and 5 of approximately 2.03 percent applied as an equal percentage to base rates
11 for all applicable customers.

12 On August 17, 2015, a Consent Decree with the Environmental Protection Agency required
13 APS to reduce nitrogen oxide ("NOx") emissions at Four Corners through the installation of Best
14 Available Retrofit Technology ("BART"). It was determined that SCRs are the most effective
15 technology among the various BART options to reduce NOx emissions at Four Corners. The Consent
16 Decree required the first SCR to be in operation by March 31, 2018, and the second SCR to be in
17 operation by July 31, 2018. The SCR on Unit 5 became operational on December 17, 2017, and the
18 SCR on Unit 4 became operational on April 24, 2018.

19 On June 1, 2016, APS filed a general rate application under Docket No. E-01345A-16-0036.
20 Due to the timing of the SCR project, APS was not able to include its portion of the SCR costs as part
21 of its post-test year plant, but requested that the Commission authorize a deferral order for the SCRs.
22 In Decision No. 76295, the Commission approved a rate increase for APS pursuant to the terms of a
23 Settlement Agreement signed by most of the parties in the docket. Section IX of the Settlement
24 Agreement (RATE TREATMENT RELATED TO THE INSTALLATION OF SELECTIVE
25 CATALYTIC REDUCTIONS AT FOUR CORNERS UNITS 4 AND 5) states in part:

26 9.1 The parties agree that this Docket shall remain open for the sole purpose of allowing
27 APS to file a request that its rates be adjusted no later than January 1, 2019 to reflect the

28 ⁶ NTEC purchased EPE's share in Four Corners on July 2, 2018. Smith Direct, Attachment RCS-2.

proposed addition of Selective Catalytic Reduction ("SCR") equipment at Four Corners, as requested in APS's application in this Docket.

9.2 APS shall be authorized by the Commission to defer for possible later recovery through rates, all non-fuel costs (as defined herein to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of owning, operating and maintaining the Selective Catalytic Reduction environmental controls at Four Corners Power Plant from the date such controls go into service until the inclusion of such costs into rates. Nothing in this paragraph shall be construed in any way to limit this Commission's authority to review the entirety of the project and to make any disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision. The interest component of the SCR deferral will be set at APS's embedded cost of debt established in this Agreement.

9.3 Any filing seeking a rate adjustment pursuant to Section 9.1 shall include the following schedules: (1) the most current APS balance sheet at the time of filing; (2) the most current APS income statement at the time of filing; (3) an earnings schedule that demonstrates that the operating income resulting from the rate adjustment does not result in a return on rate base in excess of that authorized by this Agreement in the period after the rate adjustment becomes effective; (4) a revenue requirement calculation, including the amortization of any deferred costs; (5) an adjusted rate base schedule; and (6) a typical bill analysis under present and filed rates. The Signing Parties agree to use good faith efforts to process this rate adjustment request such that any resulting rate adjustment becomes effective no later than January 1, 2019.

Other terms of the Settlement Agreement relevant to the issues raised by the Intervenors in this phase of the proceeding include the following:

- An embedded cost of debt of 5.13 percent;
- FVROR of 5.59 percent;
- Transfer of the Four Corners Rate Rider into base rates;
- In its next rate case, APS agrees to perform the Average and Excess methodology to allocate production demand costs to residential and general service classes and then reallocate production demand within the residential sub-classes;
- Implementation of the E-3 Energy Support Program for limited income customers providing eligible customers with a flat 25 percent bill discount;
- Implementation of the E-4 Medical Support Program for limited income customers who have life sustaining medical equipment providing eligible customers with a flat 35 percent bill discount;
- APS agrees to fund \$1.25 million annually for the crisis bill program to assist customers whose incomes are less than or equal to 200 percent of the Federal Poverty Income Guidelines.

1 On December 29, 2017, APS provided its 60-day notice of intent to file a request for approval
2 of a Selective Catalytic Reduction Adjustment application.

3 On February 21, 2018, APS submitted a letter indicating that the Company would defer filing
4 its SCR application for two months to accommodate Staff's workload.

5 **Application**

6 On April 27, 2018, APS docketed its Request for Approval of a Selective Catalytic Reduction
7 Adjustment "SCR Application." APS reported an original cost rate base for its portion of the SCRs,
8 which, because the plant is new, is equal to the fair value rate base, of approximately \$385 million, and
9 approximately \$23 million in jurisdictional deferred costs. As the Company did in its 2013 Four
10 Corners Rate Rider application, APS calculated the annual revenue requirement using an updated
11 WACC of 7.85 percent, resulting in a revenue requirement of \$67.5 million, which would equate to a
12 FVROR of 5.68 percent – higher than the FVROR of 5.59 percent agreed to in the Settlement
13 Agreement. The Company proposed a five percent depreciation rate on the SCRs using a 20-year useful
14 life. APS also applied the 5.13 percent embedded cost of debt to the deferral amount, with a five-year
15 amortization on the deferral. APS requested to have an adjustor of approximately 2.09 percent applied
16 as a percentage of base rates for all applicable customers.

17 **Prudency**

18 A.A.C. R14-2-103(l) defines "prudently invested" as "Investments which under ordinary
19 circumstances would be deemed reasonable and not dishonest or obviously wasteful." Under this rule,
20 all investments are considered to be prudently made and may be set aside only upon presentation of
21 clear and convincing evidence that the investments were imprudent.

22 APS witness, J. Brent Gifford, is APS' Manager of New Generation and Major Projects
23 supporting Fossil Generation. Mr. Gifford oversaw the SCR's installation through all phases of the
24 project. APS examined more than a dozen options for reducing NOx emissions from Four Corners and
25 concluded that SCRs were the only alternative that would meet the requirements of the federal Clean
26 Air Act. Using an open-book process to examine the cost estimates, the Company selected AECOM
27 Energy & Construction, Inc. to plan and construct the plant under a fixed-price contract. The
28 engineering process began in March 2013 and Unit 4 went into service in April 2018, completing the

1 installation process. More than 2.6 million labor hours went into the SCR's installation, and there were
 2 more than 4,500 engineering drawings, 166 pier foundations drilled, 7,000 tons of steel installed, 6,000
 3 cubic yards of concrete poured, and 56,300 tons of ductwork installed. Both Units are functioning
 4 below the EPA's maximum NOx emission standards.⁷

5 Staff hired consultants from Critical Technologies Consulting, LLC ("CTC") to review and
 6 evaluate the prudence of the engineering and construction process employed by APS for the SCRs.
 7 The lead consultant, Donald Grace, engineer and vice president of CTC, testified that he and his team
 8 analyzed the project's cost, schedule and engineering for the plant. According to Mr. Grace, the areas
 9 reviewed by CTC included:

- 10 • Technology Selection and Other Design Considerations
- 11 • Engineering/Procurement/Construct ("EPC") Contractor Selection
- 12 • Project Cost and Schedule
- 13 • Quality of Engineering and Construction
- 14 • Performance Emissions Testing
- 15 • Operations Going Forward

16 According to Mr. Grace, the project was completed at a cost of \$625 million, which is \$10
 17 million less than the projected cost of \$635 million. Of the total cost, APS is responsible for 63 percent
 18 of the total cost, based on its ownership interest in Four Corners, or approximately \$385 million. CTC's
 19 team concluded that the cost was very reasonable, especially given the project's design challenges.⁸

20 Mr. Grace testified that CTC found that the SCR project was well executed, was completed on
 21 schedule at a reasonable cost, and is functioning properly within design requirements.⁹ Based on CTC's
 22 analysis, Staff believes that the cost of the SCRs was prudent and reasonable and in accordance with
 23 the terms of the Settlement Agreement approved in Decision No. 76295.¹⁰ Staff recommends that the
 24 Commission adopt an increase to the fair value rate base associated with the APS's proportional share
 25

26 ⁷ Gifford Rebuttal, pages 1 – 6.

27 ⁸ One challenge was the high altitude at which the plant sits. The high elevation required larger duct sizes and an elevated
 SCR system. Another factor was the remote location of the plant. Grace Surrebuttal, pages 9 – 10.

28 ⁹ Hearing Transcript ("Tr.") at page 186 – 188.

¹⁰ Grace Surrebuttal, page 13.

1 of the SCRs of \$383.096 million on a jurisdictional basis.¹¹ No parties disputed Staff's
2 recommendation.

3 Based on the testimony and evidence presented, we find that the SCR project was completed in
4 a cost-efficient, reasonable and prudent manner and that the fair value rate base associated with APS's
5 ownership interest is \$383.096 million.

6 **Revenue Requirement**

7 In the SCR Application, to determine the annual revenue requirement associated with the
8 project, the Company applied a WACC of 7.85 percent to the SCR's incremental fair value rate base,
9 rather than the FVROR authorized in the Settlement Agreement. APS' calculations resulted in an
10 annual revenue requirement of \$67.5 million. APS's use of the WACC would result in a FVROR of
11 5.68 percent, which is higher than the FVROR of 5.59 agreed to in the Settlement Agreement and
12 authorized by the Commission. AEPG agreed with APS's use of WACC, stating that using the FVROR
13 "improperly impacts the ability of a utility to earn its authorized Return on Equity.... That impact has
14 direct and adverse consequences on utilities' ability to attract capital at reasonable rates, which, in turn,
15 adversely impacts ratepayers."¹²

16 Staff and RUCO assert that the proper FVROR to apply to the SCR's would be 5.59 percent
17 because that was the percentage agreed upon by the parties in the Settlement Agreement.¹³ Staff notes
18 that this method of calculating the FVROR is consistent with prior Commission Decisions.¹⁴ Staff's
19 witness, Ralph Smith, asserted that use of the FVROR of 5.59 percent ensures that the operating income
20 resulting from the SCR adjustment does not result in a return on rate base greater than that authorized
21 by the Commission.¹⁵ Accordingly, Staff's recommendation results in an incremental jurisdiction
22 revenue requirement of \$58.474 million.¹⁶

23 At the conclusion of the hearing, APS advised the parties that the Company no longer contested
24 Staff and RUCO's proposed FVROR of 5.59 percent as applied to the Four Corners SCR rate base

25 ¹¹ Smith Surrebuttal, Attachment RCS-4.

26 ¹² AEPG's Post-Hearing Brief, page 2. AEPG asserted its belief that "the Commission should adopt a policy in future proceedings recognizing that recouping the cost of the recently installed plant requires the use of WACC."

27 ¹³ Smith Direct, page 13; Cassidy Surrebuttal, page 5.

28 ¹⁴ Decision No. 71914, page 52 and Decision No. 74876, pages 31 – 33.

¹⁵ Tr. at 207-208.

¹⁶ Smith Surrebuttal, Attachment RCS-1.

1 component for purposes of calculating revenue requirement, but noted that its acquiescence is for this
2 proceeding only.¹⁷

3 We agree with Staff that the appropriate FVROR to use in this proceeding is 5.59 percent as
4 agreed to in the Settlement Agreement approved in Decision No. 76295. APS had an opportunity during
5 the settlement negotiations to propose the use of the WACC for calculating revenue requirement but
6 did not.¹⁸ The parties agreed to an FVROR of 5.59 percent in the Settlement Agreement. Use of
7 something other than the 5.59 percent FVROR could result in APS earning a return greater than the
8 authorized amount. Thus, we find that the resulting incremental annual revenue requirement of \$58.474
9 million is reasonable and we adopt it.

10 **Depreciable Life and Deferred Costs**

11 APS and Staff agree that the SCRs have a useful life of 20 years and should be depreciated at
12 five percent per year.

13 WRA contends that the SCRs should be depreciated over 13 years, instead of 20.¹⁹ WRA notes
14 that the Integrated Resource Plans for TEP and PNM state that it is possible that these utilities may pull
15 out of Four Corners when the coal purchase agreement with the Navajo Nation expires in 2031.²⁰ In
16 addition, WRA claims that SRP has indicated that it hopes not to rely on coal-fired generation in the
17 future.²¹ As such, WRA believes that Four Corners will probably close in 2031 – not 2038 – leaving
18 stranded costs, requiring APS customers to pay for not only plant no longer in use, but also new plant.
19 WRA believes it potentially creates “a political situation in which an aging, uneconomic power plant
20 remains operational longer than necessary, with the attendant environmental consequences.”²² WRA
21 asserts that, “[a]s a matter of regulatory policy, stranded costs should be avoided because they represent
22 a significant wealth transfer from a future generation of customers, who receive no benefit from the
23 associated asset, to the current generation that does get the benefit of the asset.”²³ In order to mitigate

24 ¹⁷ Tr. at page 371; APS' Closing Brief, page 7.

25 ¹⁸ Tr. at 107-108.

26 ¹⁹ Dr. Howe testified that WRA's reason for its participation in this phase of the proceedings is to advocate for closing Four
27 Corners as soon as is feasible. Tr. at 367-368.

28 ²⁰ Howe Direct, page 5, citing TEP's 2017 Integrated Resource Plan, page 205, and PNM's 2017-2036 Integrated Resource
Plan, page 128.

²¹ *Id.*, pages 4-5, citing SRP's Integrated Resource Plan Report 2017-2018, page 48.

²² WRA's Post-Hearing Brief, page 2.

²³ *Id.*, page 3.

the impact of potential stranded costs, WRA recommends that the Commission shorten the depreciable life of the SCR plant from 20 years to 13 years (2038 to 2031). WRA explains:

In states with a vertically integrated sector like Arizona and most of the western U.S., what can stand in the way of retiring older plants facing unfavorable economics, is the end-of-life assumptions used in previous rate cases that did not take these advancements in the electricity industry into account and simplistically assumed that baseload coal plants would always be the cheapest alternative and therefore should run indefinitely. There is regulatory pressure to keep rates low by pushing end-of-life assumptions for these plants into the far distant future. This, in turn, results in possibly substantial unrecovered investments, 'stranded costs,' for the utility when it becomes apparent that the plant should be put on a faster retirement trajectory than was previously assumed."²⁴

In addition, WRA proposes to extend the amortization period of the SCR's deferral account from five years to 13 years, coinciding with WRA's proposed amortization period, to mitigate the rate impact of the shortened depreciation period. WRA claims that the bill impact for both of its proposed adjustments would result in a monthly increase of \$2.83 for a residential customer using APS' original \$67 million annual revenue requirement.²⁵ WRA states that if the Commission does not accept WRA's proposals, the Commission should order APS to prepare a customer risk assessment of the early closure of Four Corners as part of its next rate case.²⁶

APS, Staff, AEPG, Freeport and AECC opposed both of WRA's proposals, and no other party supported them. Staff states that there is no evidence that a decision has been made by APS regarding what will happen with Four Corners after 2031, and speculation about future decisions is not within the limited scope of this proceeding.²⁷ Ms. Lockwood stated that although 2031 could be viewed as an "inflection point" for Four Corners' owners, "as of today, no decisions have been made regarding what happens post-2031."²⁸ APS, Staff, AEPG, Freeport, and AECC state that adoption of WRA's proposal would result in higher customer rates in the short term because accelerating the depreciation of the SCR equipment requires that APS recover an additional \$11.5 million per year.²⁹

Staff is not recommending any adjustment to APS' request for deferred costs at this time. Staff notes that the final amount of the deferral account will be impacted by the effective date of the SCR

²⁴ Howe Surrebuttal, pages 3-4.

²⁵ *Id.*, page 7.

²⁶ WRA's Post-Hearing Brief, page 13.

²⁷ Smith Surrebuttal, pages 8-9.

²⁸ Lockwood Rebuttal, page 2.

²⁹ AEPG's Post-Hearing Brief, page 3; Higgins Surrebuttal, pages 4, 7.

1 Adjustor established in this proceeding. Staff states that it will complete a review of the final costs and
 2 calculation of the deferral amounts from the in-service dates to the rate's effective date; if the actual
 3 final costs are different than the estimated amounts, Staff will recommend adjustments to reflect the
 4 actual numbers.³⁰

5 At present, there is no evidence – only conjecture – that Four Corners will close in 2031. Thus,
 6 we decline to adopt WRA's proposals. We find that the five percent depreciation rate on the SCR's,
 7 based on the straight-line method, using an end-of-life assumption of 2038, and the amortization of the
 8 deferral costs over five years, are reasonable and we adopt them.

9 **Cost Recovery Methodolgy**

10 Walmart's 73 Arizona locations within APS' service territory take power primarily under the
 11 Company's E32L and E32M tariffs.³¹ Walmart requests that, because the cost of the SCRs are related
 12 to production, the Commission should use the average and excess ("A&E") method of allocating the
 13 SCR revenue requirement and assign the entire SCR revenue increase to generation demand charges,
 14 which it claims was done in the first phase of this proceeding.³² Walmart requests that the same
 15 methodology be used to determine its share of the SCR costs, stating that use of the A&E method
 16 "assigns the SCR equipment costs to customer classes in a manner that reflects cost causation and
 17 results in a just and reasonable allocation of costs."³³ Walmart notes Mr. Snook testified that, but for
 18 the delay in inclusion of the SCR costs in rates, the A&E method would have been applied to the SCR
 19 plant.³⁴

20 APS asserts that application of the A&E method would reduce the impact to customers in rate
 21 classes E-32M, E-32L, and E-34/35, resulting in a greater amount of the cost recovery being applied
 22 to residential customers and others, with no allocation at all to APS's AG-X customers.³⁵ APS notes
 23 that Walmart provided no calculations demonstrating the full impact of its proposed use of the A&E
 24 method, but the Company estimates that residential and small business customers would have to absorb

26 ³⁰ Smith Direct, page 18.

27 ³¹ Tr. at 245.

28 ³² Tillman Direct, page 6.

³³ *Id.*

³⁴ Tr. at 160.

³⁵ Tr. at 138.

1 an additional \$4.5 million of the revenues if Walmart's proposal is adopted.³⁶ APS asserts that
 2 Walmart's proposal is based solely on a demand/causation method that fails to consider other
 3 ratemaking principles "such as simplicity, understandability, and efficacy in raising the required
 4 revenue."³⁷ APS believes that the application of the A&E methodology is more appropriate in a full
 5 rate case with a new cost of service study. The Company notes that under the Settlement Agreement,
 6 APS agreed to make an optional proposal in its next rate case using a revenue spread consistent with
 7 Walmart's present position, but observes that the Commission does not have to accept that option. In
 8 addition, both APS and Staff note that the equal percentage methodology was used for the prior Four
 9 Corners step increase.³⁸

10 We agree with APS and Staff that use of the A&E method is not reasonable in this limited-
 11 purpose proceeding and we will not adopt Walmart's proposal.

12 **Limited-Income Customers**

13 ACAA asks the Commission to exempt low-income customers from any rate increase approved
 14 in this phase of the rate proceeding due to the hardship and risks these customers will face.³⁹ Ms. Zwick
 15 states that after an increase approved by the Commission in 2017, and additional monthly increase of
 16 several dollars will again challenge low-income customers' ability to pay. Ms. Zwick notes that
 17 enrollment in APS' low-income tariffs – E-3 and E-4 – has dropped significantly and customers are
 18 being disconnected due to a more rigorous application process.⁴⁰

19 APS expressed its concerns about the precedent of creating exemptions for specific customer
 20 classes and notes that ACAA acknowledges that the requested exemption would increase the costs to
 21 other customers.⁴¹ The Company notes that under the terms of the Settlement Agreement, there is
 22 already a 25 percent discount in place for low-income customers and a \$1.25 million allocation per
 23 year for crisis funding. In addition, APS dedicated an additional \$1 million in crisis funding but,
 24 according to Ms. Zwick, these funds must be used by the end of 2018.⁴² APS states that it "has

25 ³⁶ Snook Rebuttal, page 8.

26 ³⁷ APS's Closing Brief, page 11, citing *Freeport Minerals Corp. v. Ariz. Corp. Comm'n*, 244 Ariz. 409 at 412 (App. 2018).

27 ³⁸ Snook Rebuttal, page 9; Smith Surrebuttal, page 11-12.

28 ³⁹ Zwick Direct, page 2.

⁴⁰ Zwick Direct, page 3.

⁴¹ Tr. at 266.

⁴² Tr. at 261.

1 committed to revisiting discount amounts in its next rate case as a more appropriate forum to address
2 support for low-income customers.”⁴³

3 To address concerns about the impact of the SCR adjustment on low-income customers and the
4 possible exhaustion of existing available crisis funds, Staff proposes that APS voluntarily provide
5 additional shareholder funding of \$500,000 in 2019 as a means of helping mitigate the impact of the
6 Four Corners SCR increase on low-income customers. However, Staff stops short of recommending
7 that the Commission order APS to do so.⁴⁴ APS stated that it does not believe it is appropriate to require
8 its shareholders to provide additional funds to the low-income program.⁴⁵

9 We are concerned about creating rate exemptions for specific customer classes and we decline
10 to adopt ACAA’s proposal. We strongly encourage APS to implement Staff’s suggestion regarding an
11 additional \$500,000 of shareholder funding for crisis billing in 2019, but we do not order the Company
12 to do so. However, we find that it is reasonable to direct APS to include an explanation of its efforts to
13 promote its various limited-income and crisis billing programs to its customers. APS should prepare a
14 schedule showing the number of customers who received assistance under its E-3 and E-4 tariffs and
15 its crisis billing program beginning January 2014 and ending with the test year adopted in its next rate
16 application. APS should also review the discount amounts for its low-income programs.

17 **Planning for Closure**

18 The Citizen Groups are entities that represent portions of the Navajo community in the area
19 around the Four Corners plant. In addition to Four Corners, there exists the San Juan Generating Station
20 (“SJGS”), which is across the San Juan River from Four Corners, also on Navajo Tribal Land. The
21 owners of SJGS announced the plant’s closure in 2022 – approximately 30 years before it was expected
22 to close.⁴⁶ The Citizen Groups express concern that APS will close Four Corners far earlier than 2041
23 when the current land lease with the Navajo Nation expires. They note that APS and Arizona’s other
24 electric utilities have misjudged the economics of coal-fired generation leading to early retirement of
25 plant, and have failed to implement transition planning, leaving the communities to scramble for

26
27 ⁴³ Lockwood Rebuttal, page 3-4.

⁴⁴ Smith Surrebuttal, page 11.

⁴⁵ Tr. at 49-50.

⁴⁶ Eisenfeld direct, pages 11-12.

1 solutions to the devastating economic impacts of the plant's closure. The Citizen Groups point to the
2 planned early closure of the Navajo Generation Station ("NGS"), a coal-fired plant on Navajo Tribal
3 Land in Arizona, as an example of a failure to timely prepare for the closure and prevent the devastation
4 of a community heavily dependent on the plant for jobs. Like WRA, the Citizen Groups point to filings
5 by TEP, PNM, and SRP that indicate their intention not to renew the coal contract in 2031 and withdraw
6 from Four Corners.

7 In order to avoid a material and detrimental effect on Navajo communities and local economies,
8 the Citizen Groups propose a proactive approach to planning for the closure of Four Corners:

- 9 • APS should establish a Four Corners Transition Fund of \$10 million, with at least half
10 of the funds provided by APS shareholders, to provide financial resources to the
11 impacted Navajo and non-tribal communities in the region.
- 12 • APS should establish a Transition Collaborative comprised of stakeholders from
13 northwestern New Mexico and should commit to participating in the Collaborative.
- 14 • APS should commit to providing transmission capabilities and renewable energy
15 development opportunities on Tribal Lands.
- 16 • APS should develop and deploy energy efficiency programs benefitting Tribal
17 communities, working with the other owners of Four Corners to ensure coordinated,
18 comprehensive energy efficiency offerings and delivery.
- 19 • APS should provide in-kind and regular assistance to the Navajo Nation to aid in
20 economic development efforts through the development of electric infrastructure that
21 service Tribal communities.⁴⁷

22 The Citizen Groups contend that delaying implementation of these proposals is not in the public interest
23 or the interest of the Four Corners communities.

24 APS asserts that the transition plan requested by the Citizen Groups is beyond the scope of this
25 proceeding, noting that neither Ms. Horseherder nor Mr. Eisenfeld offered opinions on the prudence
26 of the Four Corners project. Rather, APS states, the Citizen Groups are seeking millions of dollars from
27

28 ⁴⁷ Eisenfeld direct, pages 15-24.

1 APS, its shareholders and customers without proposing any details on how the funds would be used,
 2 accountability measures, or the impact of the transition plan. The Company also notes that the Citizen
 3 Groups are not official representatives of the Navajo Nation, which is not a party to this matter.⁴⁸

4 AEPG asserts that the proposals of the Citizen Groups should be deferred until a later
 5 proceeding because of the limited nature of the instant proceeding.⁴⁹

6 Staff states that it supports the preparation of a transition plan, "including a fund of several
 7 million dollars to assist the Navajo communities in transitioning to a future that is not heavily dependent
 8 upon coal," but believes it is premature to do so, and inappropriate to address in this limited-scope
 9 proceeding.⁵⁰

10 We agree with APS, AEPG and Staff that the transition plan proposed by the Citizen Groups is
 11 beyond the limited scope of this proceeding and we decline to adopt the Citizen Groups' proposal.
 12 However, given recent events surrounding the closure of NGS and SJGS, we believe that it is
 13 reasonable to require APS to begin establishing a transition plan for Four Corners and the impacted
 14 communities. Accordingly, APS should file as part of its next rate case a proposed initial transition
 15 plan for Commission consideration.

16 **Bill Impact**

17 In Staff's Late-Filed Exhibit, attached to this Decision as Exhibit A, Staff outlined the estimated
 18 monthly bill impact for various customer classes by applying an SCR Adjustor that will recover the
 19 SCR costs on an equal percentage, to be applied to the base rates of customer bills. For a residential
 20 customer with an average monthly use of 1,064 kWh, the monthly impact would be \$2.47, from
 21 \$145.98 to \$148.45. The actual impact may be higher or lower, depending on the actual number of
 22 kWh used during the month.

23 * * * * *

24 ...

25 ...

26 ...

27 ⁴⁸ Lockwood Rebuttal, page 4.

28 ⁴⁹ AEPG Post-Hearing Brief, page 4.

⁵⁰ Staff Post-Hearing Brief, page 11.

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On June 1, 2016, in Docket No. E-01345A-16-0036, APS filed with the Commission the above-captioned rate case application, which was consolidated with Docket No. E-01345A-16-0123 on August 1, 2016.

2. In Decision No. 76295 (August 18, 2017), the Commission approved a rate increase for APS pursuant to a Settlement Agreement. In addition, the Commission authorized APS "to defer for possible later recovery through rates, all non-fuel costs...of owning, operating, and maintaining the Selective Catalytic Reduction environmental controls at the Four Corners Power Plant."⁵¹

3. Parties to this docket during the first phase of this proceeding were APS, Staff, Richard Gayer, Patricia Ferré, Warren Woodward, IO, Freeport, AECC, Sun City HOA, WRA, AIC, AURA, PORA, AriSEIA, ASBA, AASBO, Cynthia Zwick, ACAA, SWEEP, RUCO, Vote Solar, ED8/McMullen, Kroger, TEP, Pima County, SEIA, EFCA, Walmart, IBEW Locals, Calpine Solutions, the Alliance, the Districts, FEA, CNE, Direct Energy, AARP, Sedona, ASDA, Coolidge, ConservAmerica, and Granite Creek.

4. On December 29, 2017, APS docketed its 60-day notice of intent to file its request to for approval of an SCR adjustment.

5. On February 21, 2018, the Company submitted a letter indicating that it would delay its SCR adjustment request for two months.

6. On April 27, 2018, APS docketed its SCR Application. The SCR Application contained the direct testimony of Barbara Lockwood, Elizabeth Blankenship, and Leland Snook, and the documents and schedules required by the Settlement Agreement.

...

...

⁵¹ Decision No. 76295, page 108.

1 7. On May 2, 2018, APS filed a Request for Procedural Schedule. In its Request, APS
2 provided a proposed procedural schedule, and noted that Staff and RUCO supported the proposed
3 schedule.

4 8. On May 4, 2018, WRA filed its Notice of Intent to Participate in Proceedings. WRA
5 requested that a procedural conference be set to allow WRA to provide input on the proposed schedule.

6 9. On May 11, 2018, by Procedural Order, a telephonic procedural conference was set for
7 May 17, 2018.

8 10. The procedural conference was held as scheduled on May 17, 2018. Present through
9 counsel were APS, RUCO, WRA, EFCA and Staff. The parties discussed setting a hearing, a
10 procedural schedule, and appropriate customer notice. Counsel for EFCA stated that EFCA did not
11 intend to participate in this phase of the proceedings.

12 11. RUCO, WRA, ACAA, Freeport, AECC, Walmart, and ED8/McMullen each filed a
13 notice stating their intention to participate in this proceeding.

14 12. By a Procedural Order issued on May 18, 2018, a hearing was set in this matter to begin
15 on September 5, 2018.

16 13. On June 8, 2018, Sierra Club filed an Application for Leave to Intervene.

17 14. On June 13, 2018, by Procedural Order, Sierra Club's Application for Leave to
18 Intervene was granted.

19 15. On June 22, 2018, APS filed an Objection to Sierra Club's First Set of Data Requests
20 and a Motion for Protective Order ("Motion"), requesting a Protective Order that (i) relieves APS of
21 the burden of responding to Request Nos. 1.2, 1.3, 1.5 through 1.17, 1.20(c) and (d), 1.24, 1.25 (as it
22 relates to the continued operation or retirement of the Plant), and limit 1.23; (ii) precludes similar
23 discovery in the future; (iii) clarifies that the scope of this proceeding concerns whether and how APS
24 may recover the deferral and revenue requirement associated with installing the SCRs at Four Corners;
25 and (iv) clarifies that the scope of this proceeding specifically does not include any issue related to
26 whether the continued operation of Four Corners would be prudent.

27 16. On June 26, 2018, by Procedural Order, a procedural conference was scheduled for July
28 10, 2018, for oral argument on APS' Motion.

1 17. On July 2, 2018, Citizen Groups and AEPG filed Applications for Leave to Intervene.

2 18. On July 5, 2018, Sierra Club filed its Response in Opposition to Arizona Public Service
3 Company's Motion for a Protective Order and Objection to Sierra Club's First Set of Data Requests
4 ("Response"). In its Response, Sierra Club requested that the Commission deny APS' Motion and
5 direct the Company to expedite its responses to Sierra Club's data requests.

6 19. Also on July 5, 2018, Sierra Club filed a Motion to Associate Counsel Pro Hac Vice and
7 a Motion to Appear Telephonically, requesting authority to associate Shannon Fisk of Earthjustice and
8 Marta Darby of Sierra Club as counsel for Sierra Club and requesting permission to appear
9 telephonically.

10 20. On July 6, 2018, by Procedural Order, Ms. Marta Darby and Mr. Shannon Fisk were
11 admitted Pro Hac Vice in the above-captioned matter and Sierra Club's Motion to Appear
12 Telephonically at the July 10, 2018, procedural conference was granted.

13 21. On July 10, 2018, the procedural conference to discuss APS' Motion convened as
14 scheduled. Present at the procedural conference were APS, Sierra Club, WRA, ACAA, RUCO, and
15 Staff. The matter was taken under advisement at the conclusion of the procedural conference.

16 22. By a Procedural Order issued on July 11, 2018, intervention was granted to the Citizen
17 Groups and AEPG. The Procedural Order further ordered that the scope of this proceeding is limited
18 to the prudence and recovery of all non-fuel costs of owning, operating, and maintaining the SCR
19 environmental controls at the Four Corners Power Plant, as contemplated in Decision No. 76295; that
20 the Protective Agreement entered into by the parties during the first phase of this docket shall be used
21 by intervenors new to the matter if they wish to obtain confidential or highly confidential information
22 from other parties; and set various filing deadlines.

23 23. On July 25, 2018, RUCO filed a Notice of Filing the Direct Testimony of John Cassidy;
24 Walmart filed the Direct Testimony of Gregory W. Tillman; Citizen Groups filed the Direct Testimony
25 of Nicole Horseherder and Michael Eisenfeld; WRA filed the Filing Direct Testimony of Douglas J.
26 Howe; ACAA filed the Direct Testimony of Cynthia Zwick; and Staff filed the Direct Testimony of
27 Ralph Smith.

28

24. On August 9, 2018, APS filed the Rebuttal Testimony of Barbara Lockwood, J. Brent Gifford, Elizabeth Blankenship, and Leland Snook.

25. On August 10, 2018, Sierra Club filed a Notice of Withdrawal, stating that Sierra Club wished to withdraw as an intervenor in these dockets.

26. On August 13, 2018, by Procedural Order, Sierra Club's Notice of Withdrawal was granted.

27. On August 27, 2018, Freeport and AECC filed the Surrebuttal Testimony of Kevin C. Higgins.

28. On August 28, 2018, Walmart filed the Surrebuttal Testimony of Gregory W. Tillman.

29. On August 29, 2018, Staff filed Surrebuttal Testimony of Ralph Smith; RUCO filed the Surrebuttal Testimony of John Cassidy; WRA filed the Surrebuttal Testimony of Douglas J. Howe; Citizen Groups filed the Surrebuttal Testimony of Michael Eisenfeld.

30. On August 31, 2018, Staff filed the Surrebuttal Testimony of Donald Grace.

31. On August 31, 2018, a pre-hearing conference was held to discuss witness schedules and other procedural matters.

32. The hearing began on September 5, 2018, and continued through September 7, 2018. Members of the public provided comments stating their support for the Citizen Groups' transition plan. APS presented the testimony of Barbara Lockwood, J. Brent Gifford, Elizabeth Blankenship, and Leland Snook; Walmart presented the testimony of Gregory Tillman; WRA presented the testimony of Douglas J. Howe; ACAA presented the testimony of Cynthia Zwick; Freeport and AECC presented the testimony of Kevin C. Higgins; Citizen Groups presented the testimony of Nicole Horseherder and Michael Eisenfeld; and Staff presented the testimony of Ralph Smith and Donald Grace. At hearing, the parties stipulated to the Pre-filed Testimony of RUCO's witness, John Cassidy. AEPG and ED8/McMullen did not present witnesses. At the conclusion of the hearing, the matter was taken under advisement pending the submission by Staff of a Late-Filed Exhibit.

33. On September 14, 2018, Staff filed its Notice of Filing Late Filed Exhibit.

34. On September 21, 2018, ACAA, WRA, Freeport, AECC, Walmart, AEPG, APS, and Citizen Groups each filed their respective Post-Hearing Briefs.

1 35. On September 24, 2018, Staff filed its Post-Hearing Brief.

2 36. On October 18, 2018, Walmart filed a Motion to Associate Counsel Pro Hac Vice, to
3 associate Lisa Vickers Perry, attorney for Walmart, as counsel pro hac vice and attached all the requisite
4 documents.

5 **Determinations**

6 37. We find that the costs of \$625 million for construction of the SCRs are prudent, and that
7 APS' jurisdictional share to be included in rate base is \$383.096 million.

8 38. We find that application of the FVROR of 5.59 percent agreed to in the Settlement
9 Agreement is the appropriate method to calculate the revenue requirement associated with the
10 placement of the SCRs into rate base.

11 39. We find Staff's recommended incremental annual revenue requirement of \$58.474
12 related to the SCRs, and Staff's recommended overall 1.81 percent SCR Adjustor to be applied equally
13 to customers across base rates, are reasonable.

14 40. As discussed herein, we find that WRA's proposals to reduce the depreciable life of the
15 SCRs from 20 years to 13 years, and increase the deferral amortization period from five years to 13
16 years are not reasonable.

17 41. We find that a twenty-year useful life for the SCRs with five percent depreciation is
18 reasonable.

19 42. We find that the estimated cost deferral amount of approximately \$23 million, amortized
20 at 5.13 percent over five years is reasonable. Staff shall complete a review of the final costs and
21 calculate the deferral amounts from the SCR's in-service dates to the SCR Adjustor effective date. If
22 the actual final costs are different than the estimated amounts, Staff shall recommend adjustments to
23 reflect the actual amount of the deferral.

24 43. We find that Walmart's proposal to apply the A&E method to customers in rate classes
25 E-32M, E-32L, and E-34/35 is not reasonable and we decline to adopt it.

26 44. As discussed herein, we find that ACAA's proposal to exempt low income customers
27 from the SCR adjustor is not reasonable.

28

1 45. It is reasonable to require that in APS' next rate case, it shall include an explanation of
2 its efforts to promote its various low income and crisis billing programs to its customers and to prepare
3 a schedule showing the number of customers who received assistance under its E-3 and E-4 tariffs and
4 its crisis billing program beginning January 2014 and ending with the test year adopted in its next rate
5 application. APS should also revisit the discount amounts for its low-income programs.

6 46. We find that the transition plan proposed by the Citizen Groups is outside the limited
7 scope of this proceeding. We believe that it is reasonable to require APS to begin establishing a
8 transition plan for Four Corners and the impacted communities. It is reasonable to require APS to file,
9 as part of its next rate case, a proposed initial transition plan for Commission consideration.

10 CONCLUSIONS OF LAW

11 1. APS is a public service corporation within the meaning of Article XV, Sections 3 and
12 14 of the Arizona Constitution, A.R.S. §§ 40-203, -204, -221, -250, -251, and -361, and A.A.C. R14-
13 2-801 et. seq.

14 2. The Commission has jurisdiction over APS and the subject matter of the SCR
15 Application.

16 3. Notice of the SCR Application and hearing was provided in accordance with Arizona
17 law.

18 4. It is just and reasonable and in the public interest to approve a FVRB for APS'
19 proportional share of the SCRs on Four Corners of \$383.096 million on a jurisdictional basis.

20 5. It is just and reasonable to adopt a FVROR of 5.59, as approved in the Settlement
21 Agreement, for the SCRs on Four Corners.

22 6. It is just and reasonable and in the public interest to approve an adjustment to the rates
23 set in Decision No. 76295 that will recover the rate base and expense effects of the SCR's placement
24 into rate base.

25 ORDER

26 IT IS THEREFORE ORDERED that Arizona Public Service Company is authorized to adjust
27 the rates set by Decision No. 76295 by implementing an SCR Adjustor.

28 IT IS FURTHER ORDERED that Arizona Public Service is authorized to recover annual

1 revenue of \$58.474 million related to the installation and operation of SCRs on Four Corners to be
2 recovered by an SCR Adjustor equivalent to an overall 1.81 percent charge applied to base rates.

3 IT IS FURTHER ORDERED that Staff shall complete a review of the final costs and
4 calculation of the deferral amounts from the SCRs' in-service dates to the SCR Adjustor's effective
5 date. If the actual final costs are different than the estimated amounts, Staff shall recommend
6 adjustments to reflect the actual numbers.

7 IT IS FURTHER ORDERED that Arizona Public Service Company shall file by December 31,
8 2018, an SCR Adjustor tariff effective on January 1, 2019, that conforms to the findings in this
9 Decision.

10 IT IS FURTHER ORDERED that Arizona Public Service Company shall provide notice of the
11 SCR Adjustor to its customers, in a form acceptable to the Commission's Utilities Division, beginning
12 with its first billing cycle in January 2019.

13 IT IS FURTHER ORDERED that Arizona Public Service Company shall include in its next
14 rate application an explanation of its efforts to promote its various low income and crisis billing
15 programs beginning January 2014 and ending with the test year adopted in its next rate application.
16 Arizona Public Service should also revisit the discount amounts for its low-income programs.

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1 IT IS FURTHER ORDERED that Arizona Public Service Company shall file as part of its next
2 rate case a proposed initial transition plan for the Four Corners Power Plant for Commission
3 consideration.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN FORESE

COMMISSIONER DUNN

9
10 COMMISSIONER TOBIN

COMMISSIONER OLSON

COMMISSIONER BURNS

11
12 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
13 Interim Executive Director of the Arizona Corporation
14 Commission, have hereunto set my hand and caused the official
15 seal of the Commission to be affixed at the Capitol, in the City of
16 Phoenix, this _____ day of
17 _____ 2018.

18
19 MATTHEW J. NEUBERT
20 INTERIM EXECUTIVE DIRECTOR

21 DISSENT _____

22 DISSENT _____
23 BAM/sa
24
25
26
27
28

SERVICE LIST FOR:

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO.:

E-01345A-16-0036 and E-01345A-16-0123

Thomas H. Campbell
Stanley B. Lutz
LEWIS ROCA ROTHGERBER CHRISTIE
201 East Washington Street, Suite 1200
Phoenix, AZ 85004
Attorneys for Arizona Energy Policy Group
Tcampbell@lrrc.com
SBlutz@lrrc.com
Consented to Service by Email

Bob Stump, Executive Director
ARIZONA ENERGY POLICY GROUP
2198 East Camelback Road, Suite 305
Phoenix, AZ 85016
ArizonaEnergyPolicyGroup@gmail.com
Consented to Service by Email

Thomas A. Loquvam
Thomas L. Mumaw
Melissa M. Krueger
PINNACLE WEST CAPITAL CORPORATION
400 North 5th Street, MS 8695
Phoenix, AZ 85004
Attorneys for Arizona Public Service Company
Thomas.Loquvam@pinnaclewest.com
Thomas.Mumaw@pinnaclewest.com
Melissa.Krueger@pinnaclewest.com
Amanda.Ho@pinnaclewest.com
Debra.Orr@pinnaclewest.com
prefo@swlaw.com
Consented to Service by Email

Matthew E. Price
JENNER & BLOCK
1099 New York Avenue, NW Suite 900
Washington, DC 20001-4412
Attorneys for Arizona Public Service Company and
Pinnacle West Capital Corporation

Mary R. O'Grady
OSBORN MALEDON, P.A.
2929 North Central Avenue, 21st Floor
Phoenix, AZ 85012
Attorneys for Arizona Public Service Company and
Pinnacle West Capital Corporation

Patricia Ferré
P.O. Box 433
Payson, AZ 85547
pFerréact@mac.com
Consented to Service by Email

Richard Gayer
526 W. Wilshire Drive
Phoenix, AZ 85003
rgayer@cox.net
Consented to Service by Email

Warren Woodward
55 Ross Circle
Sedona, AZ 86336
w6345789@yahoo.com
Consented to Service by Email

Anthony L. Wanger
Alan L. Kierman
Brittany L. DeLorenzo
IO DATA CENTERS, LLC
615 N. 48th St.
Phoenix, AZ 85008

Patrick J. Black
FENNEMORE CRAIG, PC
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016
Attorneys for Freeport Minerals Corporation and
Arizonans for Electric Choice and Competition
pblack@fclaw.com
khiggins@energystat.com
Consented to Service by Email

Daniel Pozefsky, Chief Counsel
RESIDENTIAL UTILITY CONSUMER OFFICE
1110 W. Washington, Suite 220
Phoenix, AZ 85007
dpozefsky@azruco.gov
procedural@azruco.gov
jfuentes@azruco.gov
cfraulob@azruco.gov
Consent to Service by Email

Greg Eisert, Director
Steven Puck, Director
Government Affairs
SUN CITY HOMEOWNERS ASSOCIATION
10401 W. Coggins Drive
Sun City, AZ 85351
gregeisert@gmail.com
Steven.puck@cox.net
Consented to Service by Email

Timothy M. Hogan
ARIZONA CENTER FOR LAW IN THE PUBLIC
INTEREST

514 W. Roosevelt St.
Phoenix, AZ 85003

Attorneys for Western Resource Advocates,
Southwest Energy Efficiency Project, and Vote Solar

thogan@aic@aclpi.org
ken.wilson@westernresources.org
schlegelj@aol.com

ezuckerman@swenergy.org
bbaatz@aceee.org

briana@votesolar.org
cosuala@earthjustice.org

dbender@earthjustice.org
cfitzgerrell@earthjustice.org

Consented to Service by Email

Meghan H. Grabel
OSBORN MALEDON, P.A.
2929 N. Central Ave., Suite 2100
Phoenix, Arizona 85012

Attorneys for Arizona Investment Council
Mgrabel@omlaw.com

gvaquinto@arizonaic.org

Consented to Service by Email

Craig A. Marks
CRAIG A. MARKS, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, AZ 85028
Attorney for Arizona Utility Ratepayer Alliance

Craig.Marks@azbar.org
Pat.Quinn47474@gmail.com

Consented to Service by Email

Al Gervenack, Director
Rob Robbins, President
Robert Miller, Director
PROPERTY OWNERS & RESIDENTS
ASSOCIATION

13815 Camino del Sol
Sun City West, AZ 85372

Al.gervenack@porascw.org
Rob.robbs@porascw.org

Bob.miller@porascw.org

Consented to Service by Email

Tom Harris, Chairman
ARIZONA SOLAR ENERGY INDUSTRIES
ASSOCIATION

2122 W. Lone Cactus Dr., Suite 2
Phoenix, AZ 85027

Tom.Harris@AriSEIA.org

Consented to Service by Email

Cynthia Zwick, Executive Director
Kevin Hengehold, Energy Program Director
ARIZONA COMMUNITY ACTION
ASSOCIATION

340 E. Palm Lane, Suite 315
Phoenix, AZ 85004

czwick@azcaa.org
khengehold@azcaa.org

Consented to Service by Email

Jay I. Moyes
MOYES SELLERS & HENDRICKS LTD
1850 N. Central Avenue, Suite 1100
Phoenix, AZ 85012

Attorneys for Electrical District Number Eight and
McMullen Valley Water Conservation & Drainage
District

JasonMoyes@law-msh.com
jimoyes@law-msh.com

jim@harcuvar.com

Consented to Service by Email

Kurt J. Boehm
Jody Kyler Cohn
BOEHM KURTZ & LOWRY
36 E. Seventh Street, Suite 1510
Cincinnati, OH 45202
Attorneys for The Kroger Co.

John William Moore, Jr.
MOORE BENHAM & BEAVER, PLC
7321 North 16th Street
Phoenix, AZ 85020
Attorney for The Kroger Co.

Giancarlo G. Estrada
KAMPER ESTRADA, LLP
3030 N. 3rd Street, Suite 770
Phoenix, AZ 85012
Attorneys for Solar Energy Industries Association, San
Juan Citizens Alliance, Tó Nizhóní Aní, and Diné
CARE

gestrada@lawphx.com
kfox@kfwlaw.com

Consented to Service by Email

Lawrence V. Robertson, Jr.
210 Continental Road, Suite 216A
Green Valley, AZ 85622
Attorney for Calpine Energy Solutions LLC,
Constellation New Energy, Inc., and Direct Energy, Inc.
tubaclawyer@aol.com

Consented to Service by Email

L. Robertson
210 Continental Road, Suite 216A
Green Valley, AZ 85622
Attorney for Calpine Energy Solutions LLC,
Constellation New Energy, Inc., and Direct Energy, Inc.

Michael W. Patten
Jason D. Gellman
SNELL & WILMER LLP
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004
Attorneys for Tucson Electric Power Company
mpatten@swlaw.com
jhoward@swlaw.com
docket@swlaw.com
Bcarroll@tep.com
Consented to Service by Email

Charles Wesselhoft, Deputy County Attorney
PIMA COUNTY ATTORNEY'S OFFICE
32 North Stone Avenue, Suite 2100
Tucson, AZ 85701
Charles.Wesselhoft@pcao.pima.gov
Consented to Service by Email

Court S. Rich
ROSE LAW GROUP PC
7144 E. Stetson Drive, Suite 300
Scottsdale, AZ 85251
Attorneys for Energy Freedom Coalition of America
crich@roselawgroup.com
hslaughter@roselawgroup.com
clcdford@mcdonaldcarano.com
Consented to Service by Email

Greg Patterson
MUNGER CHADWICK
916 West Adams, Suite 3
Phoenix, AZ 85007
Attorneys for Arizona Competitive Power Alliance

Scott S. Wakefield
HIENTON CURRY, PLLC
5045 N. 12th Street, Suite 110
Phoenix, AZ 85014
Attorneys for Wal-Mart Stores, Inc.
swakefield@hclawgroup.com
mlougee@hclawgroup.com
Stephen.chriss@wal-mart.com
Greg.tillman@walmart.com
chris.hendrix@wal-mart.com
Consented to Service by Email

AND

Lisa Vickers Perry
ORAM & HOUGHTON, PLLC
402A W. Palm Valley Blvd., #370
Round Rock, TX 78664-4200
Attorney for Walmart, Inc.
lperry@horam-houghton.com
Consented to Service by Email

Nicholas J. Enoch
Kaitlyn A. Redfield-Ortiz
LUBIN & ENOCH, PC
349 N. 4th Avenue
Phoenix, AZ 85003
Attorneys for Local Unions 387 and
769 of IBEW, AFL-CIO

Ann-Marie Anderson
WRIGHT WELKER & PAUOLE, PLC
10429 South 51st Street, Suite 285
Phoenix, AZ 85044
Attorneys for AARP
aanderson@wwpfirm.com
sjennings@aarp.org
aallen@wwpfirm.com
john@johncoffman.net
Consented to Service by Email

Albert H. Acken
Sheryl A. Sweeney
Samuel L. Lofland
RILEY CARLOCK & APPLEWHITE
One N. Central Avenue, Suite 1200
Phoenix, AZ 85004
Attorneys for Electrical District Number Six, Pinal
County, Arizona;
Electrical District Number Seven of the County of
Maricopa, State of Arizona;
Aguila Irrigation District; Tonopah Irrigation District;
Harquahala Valley Power District;
and Maricopa County Municipal Water Conservation
District Number One
aacken@rcalaw.com
ssweeney@rcalaw.com
slofland@rcalaw.com
jjw@krsaline.com
Consented to Service by Email

Robert L. Pickels, Jr.
Sedona City Attorney's Office
102 Roadrunner Drive
Sedona, AZ 86336
Attorneys for City of Sedona
rpickels@sedonaaz.gov
Consented to Service by Email

1 Garry D. Hays
2 THE LAW OFFICES OF GARRY D. HAYS, PC
2198 E. Camelback Rd., Suite 305
3 Phoenix, AZ 85016
Attorney for the Arizona Solar Deployment Alliance
4 ghays@lawgdh.com

Consented to Service by Email

5 Thomas E. Stewart, General Manager
6 GRANITE CREEK POWER & GAS LLC
7 GRANITE CREEK FARMS LLC
5316 E. Voltaire Ave.
Scottsdale, AZ 85254-3643
8 tom@gcfaz.com

Consented to Service by Email

9 Denis M. Fitzgibbons
10 FITZGIBBONS LAW OFFICES, PLC
11 115 E. Cottonwood Lane, Suite 150
PO Box 11208
Casa Grande, AZ 85130
Attorney for City of Coolidge
12 denis@fitzgibbonslaw.com

Consented to Service by Email

Timothy J. Sabo
SNELL & WILMER, LLP
One Arizona Center
400 E. Van Buren St.
Phoenix, AZ 85004
Attorneys for REP America d/b/a ConservAmerica
tsabo@swlaw.com
jhoward@swlaw.com
docket@swlaw.com
pwalker@conservamerica.org
Consented to Service by Email

Robin Mitchell, Director
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007
LegalDiv@azcc.gov
utildivservicebyemail@azcc.gov
Consented to Service by Email

FOUR CORNERS SCR ADJUSTMENT

DECISION NO.

FOUR CORNERS SCR ADJUSTMENT
Estimated Monthly Bill Impacts of Four Corners Adjustment

	AVERAGE MONTHLY BILL IMPACTS				SEASONAL BILL IMPACTS							
	Current		Proposed		Current		Proposed		Current		Proposed	
	Average Monthly Bill ¹	Average Monthly Bill ²	\$ Impact	% Impact	Summer Monthly Bill	Summer Monthly Bill	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Commercial \$ (E-32)	7,182				7,752		7,752		6,612		6,612	
Average kWh per Month	23.7				26.8		26.8		20.6		20.6	
Average kW per Month	920.64	920.64			1,075.95	1,075.95			765.32	765.32		
Base Rates	\$ 32.71	\$ 32.71			\$ 35.31	\$ 35.31			\$ 30.11	\$ 30.11		
PSA	\$ (2.26)	\$ (2.26)			\$ (2.55)	\$ (2.55)			\$ (1.96)	\$ (1.96)		
TCA	\$ 53.96	\$ 53.96			\$ 58.24	\$ 58.24			\$ 49.68	\$ 49.68		
RES	\$ 8.37	\$ 8.37			\$ 9.46	\$ 9.46			\$ 7.27	\$ 7.27		
DSMAC	\$ 0.79	\$ 0.79			\$ 0.85	\$ 0.85			\$ 0.73	\$ 0.73		
EIS	\$ -	\$ -			\$ -	\$ -			\$ -	\$ -		
Four Corners		16.66	\$ 16.66	1.67%		19.47	\$ 19.47	\$ 13.85		13.85		
IFCR	\$ 18.30	\$ 18.30			\$ 20.69	\$ 20.69			\$ 15.90	\$ 15.90		
TEAM	\$ (35.28)	\$ (35.28)			\$ (38.08)	\$ (38.08)			\$ (32.48)	\$ (32.48)		
Total	\$ 997.23	\$ 1,013.89	\$ 16.66	1.67%	\$ 1,159.87	\$ 1,179.34			\$ 834.57	\$ 848.42		
Commercial - M (E-32)	62,238				68,381		68,381		56,094		56,094	
Average kWh per Month	195.7				209.5		209.5		181.8		181.8	
Average kW per Month	7,101.78	7,101.78			8,159.93	8,159.93			6,043.62	6,043.62		
Base Rates	\$ 283.50	\$ 283.50			\$ 311.48	\$ 311.48			\$ 255.51	\$ 255.51		
PSA	\$ (18.59)	\$ (18.59)			\$ (19.90)	\$ (19.90)			\$ (17.27)	\$ (17.27)		
TCA	\$ 187.83	\$ 187.83			\$ 187.83	\$ 187.83			\$ 187.83	\$ 187.83		
RES	\$ 69.07	\$ 69.07			\$ 73.95	\$ 73.95			\$ 64.18	\$ 64.18		
DSMAC	\$ 6.85	\$ 6.85			\$ 7.52	\$ 7.52			\$ 6.17	\$ 6.17		
EIS	\$ -	\$ -			\$ -	\$ -			\$ -	\$ -		
Four Corners		128.54	\$ 128.54	1.72%		147.69	\$ 147.69	\$ 109.39		109.39		
IFCR	\$ 151.04	\$ 151.04			\$ 161.73	\$ 161.73			\$ 140.35	\$ 140.35		
TEAM	\$ (305.71)	\$ (305.71)			\$ (335.89)	\$ (335.89)			\$ (275.53)	\$ (275.53)		
Total	\$ 7,475.77	\$ 7,604.31	\$ 128.54	1.72%	\$ 8,546.65	\$ 8,694.34			\$ 6,404.86	\$ 6,514.25		

DECISION NO. _____

FOUR CORNERS SCR ADJUSTMENT
Estimated Monthly Bill Impacts of Four Corners Adjustment

	AVERAGE MONTHLY BILL IMPACTS				SEASONAL BILL IMPACTS			
	Current		Proposed		Current		Proposed	
	Average Monthly Bill ¹	Average Monthly Bill ¹	\$ Impact	% Impact	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Commercial - L (E-32)								
Average kWh per Month	290,507	290,507			314,925	314,925	266,089	266,089
Average kW per Month	716.5				795	795	638	638
Base Rates								
PSA	\$ 27,170.32	\$ 27,170.32			\$ 32,337.13	\$ 32,337.13	\$ 22,003.51	\$ 22,003.51
TCA	\$ 1,323.26	\$ 1,323.26			\$ 1,434.48	\$ 1,434.48	\$ 1,212.03	\$ 1,212.03
RES	\$ (68.07)	\$ (68.07)			\$ (75.53)	\$ (75.53)	\$ (60.61)	\$ (60.61)
DSMAC	\$ 375.65	\$ 375.65			\$ 375.65	\$ 375.65	\$ 375.65	\$ 375.65
LIS	\$ 252.93	\$ 252.93			\$ 280.64	\$ 280.64	\$ 225.21	\$ 225.21
Four Corners	\$ 31.96	\$ 31.96			\$ 34.64	\$ 34.64	\$ 29.27	\$ 29.27
IFCR	\$ -	\$ 491.78	\$ 491.78	1.78%	\$ -	\$ 585.30	\$ -	\$ 398.26
TEAM	\$ (1,426.97)	\$ (1,426.97)			\$ (1,546.91)	\$ (1,546.91)	\$ (1,307.03)	\$ (1,307.03)
Total	\$ 27,659.08	\$ 28,150.86	\$ 491.78	1.78%	\$ 32,840.10	\$ 33,425.40	\$ 22,478.03	\$ 22,876.29
Industrial - XL (E-34,35)								
Average kWh per Month	3,693,932	3,693,932			3,841,873	3,841,873	3,545,992	3,545,992
Average kW per Month	6,369.5				6,681	6,681	6,058	6,058
Base Rates								
PSA	\$ 272,543.36	\$ 272,543.36			\$ 289,124.21	\$ 289,124.21	\$ 255,962.50	\$ 255,962.50
TCA	\$ 16,825.86	\$ 16,825.86			\$ 17,499.73	\$ 17,499.73	\$ 16,151.99	\$ 16,151.99
RES	\$ (1,267.53)	\$ (1,267.53)			\$ (1,329.52)	\$ (1,329.52)	\$ (1,205.54)	\$ (1,205.54)
DSMAC	\$ 2,441.00	\$ 2,441.00			\$ 2,441.00	\$ 2,441.00	\$ 2,441.00	\$ 2,441.00
LIS	\$ 2,248.43	\$ 2,248.43			\$ 2,358.39	\$ 2,358.39	\$ 2,138.47	\$ 2,138.47
Four Corners	\$ 406.34	\$ 406.34			\$ 422.61	\$ 422.61	\$ 390.06	\$ 390.06
IFCR	\$ -	\$ 4,933.04	\$ 4,933.04	1.79%	\$ -	\$ 5,233.15	\$ -	\$ 4,632.92
TEAM	\$ (18,144.60)	\$ (18,144.60)			\$ (18,871.28)	\$ (18,871.28)	\$ (17,417.91)	\$ (17,417.91)
Total	\$ 275,052.86	\$ 279,985.90	\$ 4,933.04	1.79%	\$ 291,645.14	\$ 296,878.29	\$ 258,460.57	\$ 263,093.49

Notes:

¹ Bill excludes regulatory assessment charge, taxes and fees. All Adjustment levels in effect as of July 1, 2018.